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 South Korea's Labor Record: Balancing Political
 and Economic Priorities

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Summary

Seoul's labor policies seek to balance ambitious economic growth targets and political stability. As a result, South Korea's record on labor issues is mixed. Labor has benefited from consistent real wage increases and has captured much of the productivity gains originating from growing private-sector investment. But Seoul has severely restricted union activity and reacted harshly to work stoppages and other protests. Increasing pressure from labor, opposition forces, and students is pushing the government to consider some liberalization, including a minimum wage and lifting a few restrictions on union activities. Although Seoul is concerned about labor's demands at home and the negative image its policies project abroad, particularly because continued benefits from the Generalized System of Preferences are linked to labor practices, we believe President Chun Doo Hwan will not permit changes that would foster the

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development of powerful, independent unions capable of augmenting opposition forces. [REDACTED]

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Seoul's Labor Policy Objectives

President Chun's hard line toward workers' rights reflects a view of organized labor held by every South Korean Government since Syngman Rhee--labor's power to influence domestic politics, particularly through worker-student action in the streets, must be curtailed. To his credit, however, Chun views the equitable distribution of the benefits of South Korea's rapid economic gains as the best way to assuage the majority of workers--a formula that worked for much of Park Chung Hee's rule. Improving workers' welfare through job security, wage gains, and decent working conditions is an important objective for Seoul, although the government keeps an eye on maintaining competitiveness in world markets--in large part a function of South Korea's relatively low wages and high productivity. [REDACTED]

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Keeping the Lid on Labor

Seoul's approach to organized labor, a divide and conquer strategy, seeks to prevent a coalition of unions that could challenge the government. Key statutory and administrative tools used to limit labor's political clout include:

- Restricted freedom of association. South Korean workers are allowed to form unions at their place of work, but not unions that span more than a single factory, which sharply curtails the bargaining power of the typically small local shops. Furthermore, the Federation of Korean Trade Unions (FKTU)--the only national voice for unionized labor--must obtain government approval before intervening in local workplace disputes. Although the FKTU has occasionally been allowed a mediator's role, the government has no consistent policy on third party intervention. By law, such intervention is banned, and government officials usually mediate labor problems. Unions can appeal government decisions, but the US Embassy has noted that although redress is technically available, Seoul calls the shots.
- Certification and decertification of unions. Union applications are reviewed and certified by the Ministry of Labor. A union may be disbanded if the government determines it is "detrimental to public interest." US Embassy officials report that government foot-dragging on union applications has hampered worker organization. [REDACTED]

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The Chun government is often hard line when job-related protests become too politically charged, create bad publicity, or

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turn violent. The US Embassy reports that the Daewoo Apparel strike last summer ended when government-paid thugs masquerading as employees beat up the mostly women strikers. More recently, the government used rough tactics in March to break up a Seoul sit-in. [redacted] workers were detained for labor activities in the first three months of this year. [redacted]

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Sometimes Seoul has reneged on promises made to strikers in the heat of controversy. Several participants in last summer's Daewoo Auto strike who agreed to end their job action after assurances they would not be prosecuted have been sentenced to prison. Although the promises came from the company's chairman, it is probable he was authorized by the government to offer immunity from prosecution as part of the settlement. Most of the government-mediated gains taxi drivers made after a particularly bitter strike in May 1984 have been lost because of a lack of government supervision in the poststrike period. Retired military officers, a group favored by Chun, own many of the typically small taxi fleets. [redacted]

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Not all shortcomings in South Korea's labor record are politically motivated. In some cases, problems stem from South Korea's rapid emergence from the ranks of the LDCs. Protecting workers has not been high on Seoul's growth-oriented development agenda, and regulations already on the books are often poorly enforced:

- No minimum wage. Pending the establishment of minimum wages in 1987-88, Seoul relies on administrative guidance to encourage employers to pay at least 100,000 won per month (\$112) for a 44-hour week. Opposition forces and the FKTU are pushing for a 130,000 won (\$146) minimum wage. [redacted] 14 percent of the work force at firms with 10 employees or more make less than the 100,000-won target, compared with the 6 percent claimed by government officials.
- Inadequate protection of child labor. South Korea has laws to prevent exploitation. For instance, workers under the age of 13 must have special permission to work. In practice, effective enforcement has proved difficult, particularly in labor-intensive, sweatshop garment operations with few workers, but we have seen no evidence of widespread child labor violations.
- Dangerous working conditions. Although many of the worst abuses are in smaller, marginal firms, the largest employers often ignore worker safety. For instance, in 1985 an improperly trained welder caused a small fire in a Daewoo Shipbuilding paint shop that raged out of control when extinguishers failed to function, according

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to the US Consulate in Pusan. That fire killed seven, and the same source reports many work-related deaths at the Hyundai shipyard in 1984. But, according to government statistics, there has been a downward trend in industrial accidents since the mid-1970s. [redacted]

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Workers' Welfare

Notwithstanding these black marks on Seoul's labor record, the best available evidence suggests the fruits of South Korea's economic miracle have been well distributed. The government's export-led development strategy, which began in the 1960s, has provided excellent employment opportunities, albeit at low wages by developed country standards. In addition, massive agricultural subsidies and restrictions on imported agricultural products have boosted rural incomes. Although the cost of these programs is high--the price the government supports for rice is twice the world level--they have helped improve income distribution. [redacted]

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Seoul has not instituted many measures to improve workers' welfare, but several trends suggest the average South Korean is increasingly well off:

- South Korea has posted real wage gains in the manufacturing sector every year in the last decade, except for 1980 and 1981, when the economy was in a sharp recession and stumbling by the new Chun government hampered growth. Wage settlements this year will continue the trend--the government forecasts a 3-percent rise in consumer prices, but wages will probably post average gains of about 5 percent. Also, benefits provided by employers make up about 20 percent of the total compensation for Korean workers, compared with 5 percent in Taiwan and 11 percent in Hong Kong, according to US Department of Labor figures.
- Workers in the manufacturing sector also have benefited from productivity gains from growing investment in modern plants as the economy has moved from labor-intensive to knowledge- and technology-intensive industries, [redacted]
[redacted] At the same time, after taking real compensation and productivity gains into account, unit labor costs in South Korea fell nearly 6 percent between 1980 and 1984, clearly enhancing the competitiveness of its exports.
- Contrary to conventional wisdom, the private sector sets wages according to market signals, not by responding to government wage guidelines, according to a study sponsored by the World Bank. In addition, this study

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indicates that wage disparities between manufacturing sectors and large and small firms in the same industry are narrowing, suggesting a strong role for the market in correcting existing wage distortions. Although the data in this study ran only through 1981, the favorable trends appear to be continuing. For instance, in wage settlements so far this year, workers in manufacturing firms with fewer than 100 employees have received raises of over 6 percent, and employees of the 30 largest conglomerates have posted gains of about 5 percent. By and large, workers in smaller firms are paid less and have less generous benefits. [redacted]

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To be sure, South Korean workers measure their welfare by more than the size of their pay envelopes, and not all workers are as well off as the data for the manufacturing sector would indicate. Only one-third to one-half of the nonagricultural labor force is accounted for in official job statistics for manufacturing; the rest are self-employed, toil in family businesses, or are day laborers. Although it is risky to generalize about these uncounted millions, the small scale of family enterprises, as well as the lack of benefits and job security, suggests that if these workers at the bottom of the heap were included in government surveys, the labor picture would be less rosy. Over the next few years, however, an increasing percentage of these workers will be absorbed into the manufacturing and services sectors, where South Korea's economic growth continues to create jobs. [redacted]

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Labor Issues Raise Tensions

Despite the real compensation gains for South Korean workers in the last two decades, the average South Korean believes income disparities are widening. Polls show nearly 90 percent of the population sees an expanding gap between rich and poor. US Embassy officials trace this view to the extremely high goals South Koreans set for income distribution--they compare South Korea to developed countries, not to countries at the same stage of maturation. [redacted]

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Both this perceived disparity and genuine complaints over union rights, wages, and working conditions have contributed to labor-management tensions this year, continuing frictions evident in 1985. During the first 11 months of last year, 302 labor-related incidents involving 37,000 workers occurred, an increase of 86 percent over the same period in 1984. The increase was clearly a result of last year's poor economic performance--real GNP growth was a lackluster 5.1 percent; unemployment was up to as much as 9 percent; underemployment, particularly among college graduates, was also up; and an unprecedented 82,000 workers were laid off. Workers demanding higher wages and back pay caused about two-thirds of last year's disputes. [redacted]

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According to press reports, labor disputes this year--mostly over wages and dismissals--increased 50 percent through April compared with the same period last year. Economic performance in 1986 has been robust, but the economy must make up lost ground before it can absorb all the workers now entering the job market, much less those laid off in 1985. Moreover, workers have increased their wage demands in response to good economic news. Most disputes have been resolved without violent confrontation, but several well publicized incidents have occurred this year. According to the US Embassy, workers in the Kuro industrial area near Seoul--where many firms have long histories of labor-management strife--have staged numerous sit-ins. The self-immolation of a labor activist in March and the suicide leap from a factory roof by two women workers--one died--have also raised tensions. [REDACTED]

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Prospects for Labor Reform

The Chun government has many good tactical reasons for responding to at least some of labor's concerns:

- It would be to Seoul's advantage to relieve labor-sector pressures that have built as a result of the renewed opposition challenge. Opposition assemblymen who rode into office on a crest of public support last year are focusing on constitutional reform, but they have also pressed for change on a broad range of other issues--including labor practices.
- Chun may also feel compelled to respond to some labor demands to thwart the organizing efforts of so-called disguised workers. These workers, generally dissident college students who have lied about their backgrounds to obtain blue collar jobs, are seeking to foment labor unrest by influencing their coworkers to protest wage and working conditions. The Labor Minister blamed disguised workers for manipulating 25 percent of the labor disputes this year. [REDACTED]

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The government's international agenda also encourages some effort to improve its labor record. South Korea hopes eventually to win admission to the International Labor Organization (ILO) and to avoid criticism of Seoul's labor practices from Washington during the Generalized System of Preferences renewal process, which runs until September. We doubt, however, the government will soften its position on restricting labor's right to organize, bargain, and act collectively just to retain GSP benefits for a shrinking list of export products. Although it is impossible to calculate where Chun sees the break-even point between continuing GSP benefits and controlling the domestic labor scene, we believe political considerations will carry the most weight. [REDACTED]

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Overall, we believe wide-ranging reforms are unlikely, in large part because of the workers themselves. Those who stand to benefit the most from labor reform--primarily poorly educated sweatshop workers--do not constitute a powerful constituency that the government feels obliged to satisfy. Moreover, any attempt to swell the ranks of those who will take radical action to force the government to improve labor practices will probably fail. Most workers prefer stability and economic growth to the political disruptions that would be likely from pressing demands. The US Embassy reports that workers have generally been satisfied with the paternalistic social contract they have forged with Seoul--they refrain from politically colored demands in return, primarily, for wage gains and job security. [REDACTED]

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Unscientific--but we believe indicative--polls suggest that although large segments of the population are discontented with the government's handling of labor issues, nearly all other issues generate more consternation. As an example, about 45 percent of respondents in an independent poll believed the government managed labor union autonomy unsatisfactorily. About the same percentage of respondents thought that restrictions on labor unions were a serious problem. This same group, however, ranked the other 10 issues cited in the poll as more pressing than labor problems. Tensions between North and South Korea and the foreign debt, for example, tied for first place as the most serious problem. [REDACTED]

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Adding to pressure to maintain the status quo are the owners of the large conglomerates, who are vehemently opposed to unions and many other labor reforms. They remain an influential constituency that will lobby hard to prevent any worker freedoms that would further squeeze corporate profits. [REDACTED]

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Although major changes in South Korea's labor practices clearly are not in the cards in the near term, we expect some small steps toward reform this year if the National Assembly can disentangle itself from the constitutional reform issue. The most likely include:

- Minimum wage legislation. This step is already planned, according to the US Embassy, but the level and timing of effective wage laws are open to debate. The minimum wage that Seoul implements will be the result of studies currently under way. The government will likely have a basic minimum wage, probably exceeding 100,000 won per month, with adjustments made for type of industry, location and size of firm. Implementation starting in 1987 may be possible if the minimum wage is phased in over two or more years.
- Expanded role for the FKTU. Last year the government proposed relaxing the ban on third-party mediators in

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labor disputes by allowing the FKTU to intervene on behalf of workers. This move would reduce the role of the government in settling disputes, but the Labor Ministry would probably keep a close watch on FKTU actions. Chun probably calculates that the firing last year of several FKTU officials who were pressing for greater reforms will compel the FKTU to toe the line. Given the organization's subsequent call for larger than government-recommended wage legislation and revision of the 1980 Labor Law, however, government efforts to limit the FKTU's clout may not succeed in preventing the "toothless tiger" from cutting some teeth. [redacted]

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Seoul might also grant unions some freedom to organize on an industry- or company-wide basis, but would probably implement these measures step by step to forestall strikes or excessive wage demands. This move would extend to additional sectors the limited rights to form interenterprise unions that the government granted last year to taxi drivers and seamen. In general, we expect most labor rights gains will come from a more tolerant government attitude toward union and other worker activities rather than from sweeping, codified reforms. Incorporating new worker freedoms into the law books would limit Chun's options for cracking down on labor unrest that might threaten domestic stability. [redacted]

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Perhaps more important than any reforms will be government policies that ensure continuing healthy economic growth. This would provide employment opportunities for new entrants to the job market and improve prospects for all workers. Labor will also continue to be the prime beneficiary of price stability--a factor in preventing expansion of the gap between the rich, who profit from speculative opportunities when prices rise, and the average worker, who simply sees his buying power erode. Chun and his advisers will probably continue to view sound economic policies as the best way to promote political stability. [redacted]

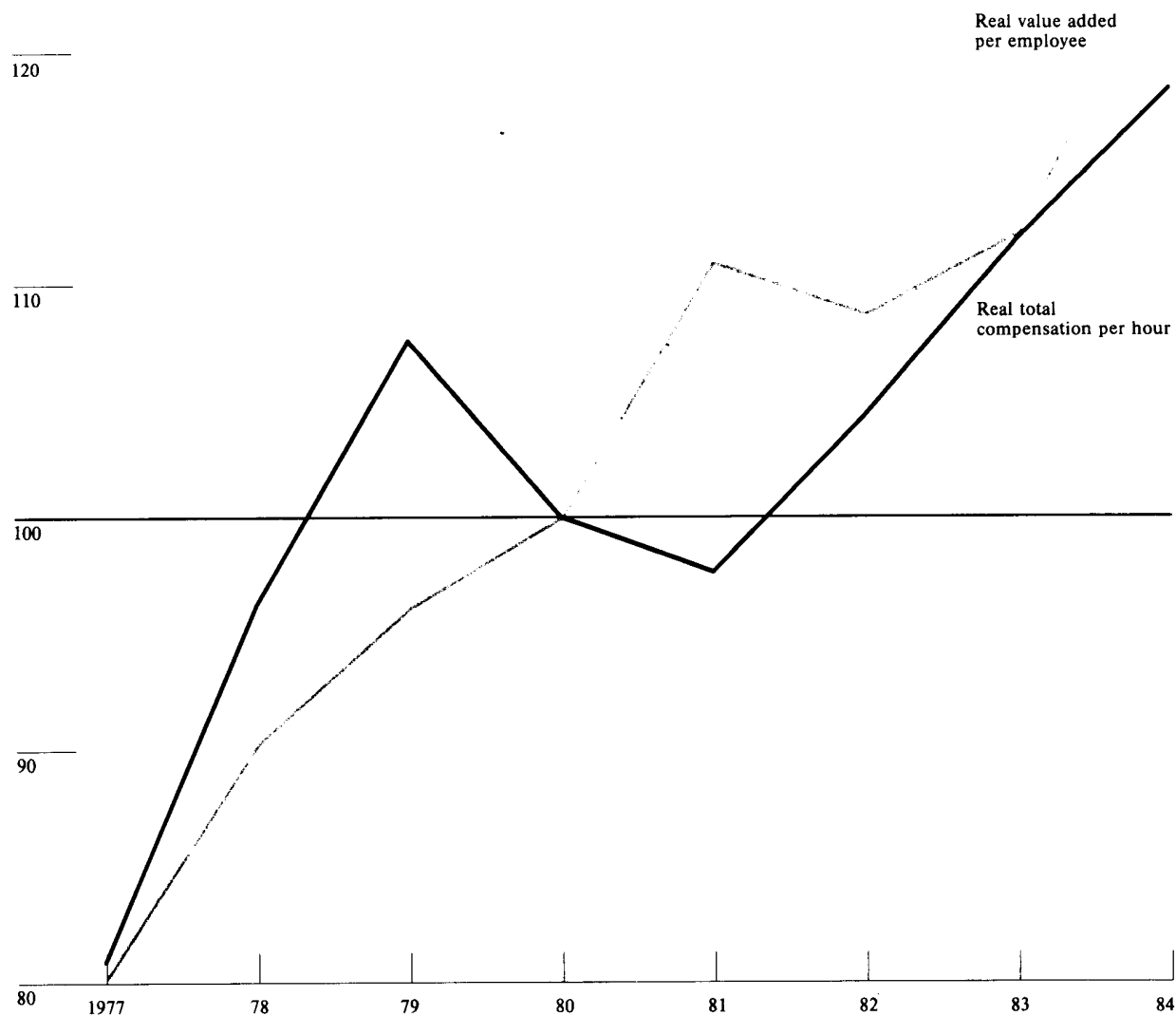
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South Korea: Real Manufacturing Compensation Growth Versus Productivity Growth

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Index base: 1980 = 100
Real compensation equals real wage
and additional compensation per hour



Source: Unpublished data prepared by the US Dept. of Labor; Economic Statistics
Yearbook, Bank of Korea; Chase Econometrics.

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